

REACHING HIGHER

Sun-Rype ANNUAL REPORT



HIGHLIGHTS

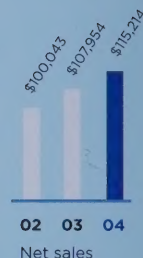
OPERATING

Sales reached a record level of \$115.2 million.

Earnings after tax were a record \$5.9 million.

Installed new beverage packaging equipment to increase capacity.

Launched Sun-Rype Vita Burst — made with fruit juices from concentrate and 11 essential vitamins, Fruit & Veggie juice in 200ml size format, and FruitSource — a new line of 100% fruit and 100% fruit plus veggie bars.



FINANCIAL (in thousands of dollars)

	2004	2003	% increase
Net sales	\$ 115,214	\$ 107,954	6.7
EBITA ¹	12,393	11,599	6.8
Net earnings	5,851	5,120	14.3
Capital expenditures	4,508	2,606	73.0

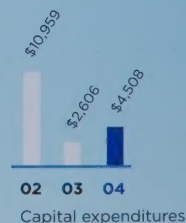
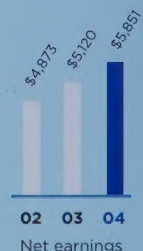
¹ Earnings before interest, income taxes and amortization.



Sun-Rype SHARE PRICE April 1, 2002 to March 8, 2005



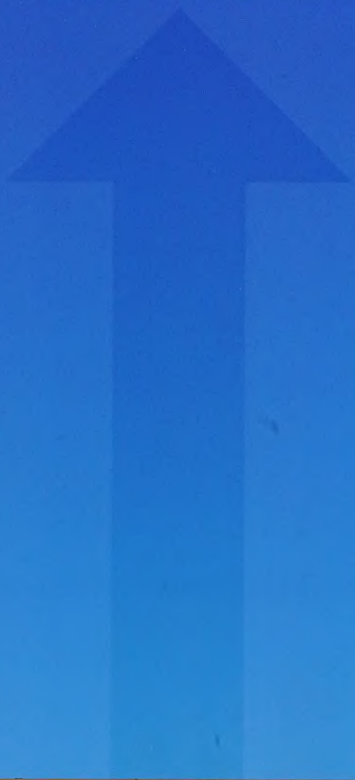
March 8
SRF close
\$11.45 per
share



PROFILE

Based in the heart of British Columbia's fruit growing district, Sun-Rype Products Ltd. is a leading Canadian manufacturer and marketer of juice-based beverages and 100% fruit snacks with annual sales of more than \$100 million.

At Sun-Rype, we are committed to growing our position as a leader in healthy and convenient fruit-based beverages and snack foods. We're proud of our accomplishments and of the passion our people have for the Sun-Rype brand. It is this passion that fuels our plans for growth. We believe that where there is great passion, there are great possibilities. And so we **REACH HIGHER.**



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Eric Sorensen
President and CEO

"The trusted values of the Sun-Rype brand, together with the spirit and commitment of our people, provide us with a distinct advantage in our quest to reach new heights."

DEAR SHAREHOLDERS,

The past year was another very successful one for Sun-Rype. We posted our third consecutive year of increased revenue and earnings. We continued to expand our share of key markets. We introduced award-winning products that received immediate trade support and garnered resounding consumer acceptance. Most importantly, we began to lay the foundation of a renewed growth strategy that will fully optimize our strengths and help ensure Sun-Rype's leadership position in the years ahead.

STRONG FINANCIAL RESULTS

Sales rose 6.7% to a record \$115.2 million in 2004, reflecting steady growth in both beverage and food products. Beverage sales were up 5.5% due to a combination of

strong branded beverage sales and flat contract manufacturing sales. Beverage sales were aided by growing demand for our award-winning Fruit & Veggie juices and the introduction of Sun-Rype Vita Burst — a new line of products that contains 11 essential vitamins in a fruit juice base. Due to higher demand for core Sun-Rype products and the growing volumes of recently launched products, the relative contribution of contract manufacturing sales declined during the year. We were also active in food products, which experienced overall sales growth of 10.1%. The expansion and revitalization of Fruit to Go and the introduction of FruitSource — a new line of adult targeted 100% fruit bars — contributed to our success.

Gross profit (net sales less the cost of goods sold) was \$39.2 million or 34.1% of sales compared to \$36.0 million or 33.4% of sales in 2003. Gross profit was positively affected by lower raw material costs, a result of the appreciating Canadian dollar, and improvements in production efficiencies. Partially offsetting these gains were increases in indirect manufacturing overhead costs that were incurred to meet production demands.

Sales, general and administrative expenses ("SG&A") were \$27.5 million or 23.9% of sales compared to \$24.2 million or 22.4% of sales in 2003. The higher SG&A expenses were due mainly to increased consumer marketing activities, higher transportation costs, management changes



INNOVATIVE THINKING

Now available in both family and individual serving sizes, Sun-Rype's innovative Fruit & Veggie juices posted new sales records in 2004 while earning three prestigious awards from the Canadian Council of Grocery Distributors. These included the association's first **Healthy Innovation Award** — a remarkable accomplishment for a product that was distributed only in western Canada.

5.5%

increase in beverage sales over the last year

and expenses associated with the new securities regulatory requirements for internal control documentation.

Net earnings for the year reached \$5.9 million, \$0.54 per share, an increase of 14% over 2003.

REACHING HIGHER

These results are the product of a strategy that has fueled steady growth during the past few years while building our position as a leading manufacturer and marketer of wholesome, fruit-based foods and beverages. While this strategy has served us well, we believe there is even more we can do to optimize Sun-Rype's core strengths and capabilities. In fact, one of the most important accomplishments of the past year was a renewed strategy for growth that builds on the company's traditional strengths but intensifies our focus

on continuous improvement and growth. The plan includes increased investment in Sun-Rype's market-leading brand across the country and a sharper focus on new food and beverage offerings that really make a difference to increasingly health-conscious consumers.

Sun-Rype's #1 position in western Canada's juice, drinks and nectars ("JDN") market has been built on our reputation for wholesome, great tasting juices and beverages. More than ever, Canadians are concerned about the nutritional quality of their diets and Sun-Rype is well positioned with a continued focus on great tasting, wholesome, fruit-based snacks and beverages. This commitment can be seen in a wide range of initiatives — from the introduction of new 100% juice products to our new line of FruitSource bars targeted to adults.

Our commitment to market research and product development continues to deliver the convenient, nutritious solutions Canadian consumers are demanding to lead healthier lives.

At the same time, we continue to build on the foundation we have established in central and eastern Canada. In the eight years since Fruit to Go was introduced to central and eastern Canada, we have been steadily building consumer awareness of the Sun-Rype brand. In fact, Fruit to Go is the #1 fruit snack across the country. This initial foray has laid the foundation to build our business nationally with additional products that reinforce Sun-Rype's wholesome positioning.

Our approach involves increased emphasis on our own branded products, with a primary focus on



BUILDING OUR BRAND

While product innovation is key to our success, we also continue to invest in the flagship products that have created the identity and strength of the Sun-Rype brand. Our recent **Not From Concentrate Apple Juice** campaign, which featured network television and magazine promotion, highlighted the superior taste, freshness and quality of our pure, not from concentrate apple juice.

30.4%

market share in fruit snacks

100% juices and 100% fruit snacks. We are also investing more time, money and energy to increase market share of our highest performing products.

Equally important, we continue to strengthen relationships with the country's leading retailers. In 2004, Sun-Rype was rated the #1 supplier for its category in western Canada (and #3 nationally) by its retail partners in the grocery trade.¹ That's a great start but, as consumers continue to demand better value, our trade customers continue to raise the bar on performance. So, too, does Sun-Rype. Last year, we hired our first dedicated Vice President of Supply Chain to optimize our national transportation and distribution strategy. We are also working on an improved forecasting and production system to more

precisely meet the respective needs of our retail customers.

The initiatives mentioned in this letter are part of a fundamental, long-term commitment to higher performance through a more rigorous approach to our planning, reporting and performance management systems. A host of initiatives are already underway, none more important than our ongoing efforts to reinforce the connection between our strategic objectives and the achievement of personal and corporate goals.

Any reference to market share is based on independent research by AC Nielsen.

¹ Advantage Group, Performance Monitor Survey, 2004.

A WORD OF THANKS

As always, our progress during the past year was a direct result of the extraordinary spirit and dedication of Sun-Rype's 428 employees, many of whom hold a personal stake in the company's success as shareholders. With their continued support, we are confident in the abundant opportunity the future holds for Sun-Rype and look forward to reaching for new heights.

Sincerely,

Merv Geen, Chairman

Eric Sorensen, President and CEO

March 8, 2005



RAISING THE BAR

Already Canada's leader in fruit snacks with a 30.4% share of the market, Sun-Rype continues to optimize production and improve quality. Last year we revitalized and unified our Fruit & Veggie and Energy to Go bars under a stronger brand offering called **FruitSource**. Featuring improved taste and texture, and delivering two full servings of fruit, FruitSource has quickly gained favour with health-conscious adults and further strengthened our position in the overall fruit snacks market.

MANAGEMENT'S DISCUSSION & ANALYSIS

HOW TO USE THIS MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A")

The following management's discussion and analysis as at March 8, 2005, is intended to help readers understand Sun-Rype Products Ltd. ("Sun-Rype" or "Company"), its history, business environment, strategies, performance and risk factors from the viewpoint of management. It should be read in conjunction with the consolidated financial statements and the accompanying notes for the years ended December 31, 2003 and 2004. The following comments may contain management estimates of anticipated future trends, activities or results; these are not a guarantee of future performance, since actual results could change based on other factors and variables beyond management control.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls, and to ensure that information used internally or disclosed externally, including the financial statements and management's discussion and analysis, is complete and reliable.

OVERALL PERFORMANCE

Sun-Rype has grown from its beginnings in 1946 manufacturing and marketing apple-based products within western Canada to become a national marketer of healthy, wholesome, fruit-based snack foods and beverages. Sun-Rype 100% fruit juices enjoy a leading market share position in the juice, drinks and nectars ("JDN") grocery store category in western Canada. In the snack food category, Sun-Rype 100% fruit-based food bars are now marketed nationally, with Fruit to Go the leading brand in the fruit snacks and leathers category.

The Company's capital investments over the past five years (\$24.8 million) have concentrated primarily on upgrades to beverage and food processing and packaging equipment. Production capacity has also been increased at the Company's only production facility, located in Kelowna, BC.

Sun-Rype's financial results have steadily improved over the past three years. Cash from operations has funded capital expenditures, eliminated all bank debt and resulted in a cash balance of \$9.1 million at December 31, 2004. The Company's board of directors declared a quarterly dividend of \$0.03 per common share commencing in the second quarter of 2004.

Within the packaged goods industry, competition for market share remains fierce and national grocery chains continue to demand ever-improving quality, pricing and service levels from manufacturers. Within this environment, Sun-Rype has been able to hold its market share, increase its customer base and win awards for innovative new products. Management believes that continued innovation in new products, packaging and production processes have been key to these market results. Marketing expenditures increased at an annual average of 7.0% over the past three years. These expenditures included programs to increase consumers' awareness and engage them in making healthy, wholesome beverage and snack food choices.

Sun-Rype's board of directors continues to update its corporate governance policies to reflect best practices. The board's audit committee meets with management quarterly to review financial results, the MD&A, and to discuss other financial, operating and internal control matters, including a report from the external auditors.

ANNUAL SELECTED FINANCIAL INFORMATION

The following is a summary of financial information for Sun-Rype for the last three fiscal years. The net sales numbers include a reclassification of co-operative advertising expenditures as a reduction of sales revenue. The Company believes that given the increasingly integrated nature of its sales and co-operative marketing arrangements with customers it is more appropriate to classify shared promotion expenses as a sales deduction rather than as a selling expense. All amounts are in millions of dollars except for per share amounts.

YEAR ENDED DECEMBER 31 (in millions of dollars except for per share amounts)

	2004	2003	2002
BALANCE SHEET			
Total assets	\$ 60.7	\$ 56.0	\$ 48.8
Total long-term obligations ¹	2.0	2.1	1.4
INCOME			
Net sales ²	115.2	108.0	100.0
Earnings before interest expense, income taxes and amortization ("EBITA") ³	12.4	11.6	10.0
Net earnings	5.9	5.1	4.9
PER SHARE DATA			
EBITA ³	1.15	1.09	0.94
Cash dividends declared ³	0.09	0.00	0.00
Net earnings, basic	0.54	0.48	0.46
Net earnings, diluted	0.54	0.48	0.45

¹ Includes current portion of long-term debt, capital leases and other long-term obligations including future income taxes.

² Net sales in each year include the impact of the reclassification of certain payments to customers as sales deductions. (See note 2 in the financial statements)

³ EBITA, EBITA and cash dividends declared, on a per share basis, are non-GAAP financial measures. Non-GAAP financial measures do not have a standardized meaning prescribed by generally accepted accounting principles and therefore may not be comparable to similar measures presented by other companies. EBITA is provided to assist investors in determining the ability of the Company to generate cash from operations to cover financial charges. EBITA is calculated in the table below and EBITA per share and cash dividends declared per share are calculated as EBITA and cash dividends declared, divided by the weighted average number of common shares outstanding during the period.

EBITA is reconciled to net earnings as follows:

	2004	2003	2002
Year Ended December 31 (in thousands of dollars)			
Net earnings	\$ 5,851	\$ 5,120	\$ 4,873
Add: Income taxes	3,098	3,171	2,581
Interest	86	99	89
Amortization	3,358	3,209	2,446
EBITA	\$ 12,393	\$ 11,599	\$ 9,989

Total assets have increased since 2001 as a result of plant upgrades in the beverage and food equipment lines, as well as the installation of an integrated, enterprise-wide computer system. Long-term obligations have increased primarily due to future income taxes, which principally reflect timing of capital cost allowance claimed for income tax purposes versus depreciation recognized on Sun-Rype's increasing capital equipment base, partially offset by a decline in employee future benefit obligations due to the retirement of Sun-Rype's former CEO in early 2004.

Earnings before interest expense, income taxes and amortization ("EBITA") reflected steady growth, an indicator of management's focus on the gross margin profitability of its products and of the cash flow generation capability from the Company's day-to-day operations.

Earnings growth has continued year over year. In some years, favorable events occurred such as gains on disposal/sale of assets and the realization of tax benefits from utilizing previously unrecognized tax loss carry-forwards. These were offset by a trend of increased depreciation costs (a result of capital expenditures for new manufacturing and packaging equipment) and increased marketing expenses to launch and/or support new products.

Earnings per share have grown proportionate to earnings growth. The Company's share base has increased slightly during the past four years as all outstanding stock options were exercised, partially offset by the repurchase of shares under normal course issuer bids during the same period. At December 31, 2004, there were no stock options outstanding.

RESULTS OF OPERATIONS

Sales and Profitability

Sun-Rype's sales increased in 2004 by 6.7% to \$115.2 million (2003 - \$108.0 million), while gross profit increased by 8.9% to \$39.2 million (2003 - \$36.0 million) and net earnings increased by 14.3% to \$5.9 million (2003 - \$5.1 million). The improvement in net earnings was a result of increased sales volumes as well as lower raw material costs, production efficiencies, and a one-time gain on disposal of vacant land of \$0.7 million (before tax), partially offset by increased marketing expenditures. In terms of product mix, food product sales increased to 27% of total sales, compared to 26% last year, a result of increased branded food sales and a new food co-packing agreement that came on stream in late 2003.

Sun-Rype's sales base and customer mix is concentrated primarily within the wholesale grocery channel, with the top seven customers comprising 75% of total sales (2003 - 76%) and the largest single customer comprising less than 25% of sales.

Branded Sales

Branded sales, the Company's key driver of corporate growth and profitability, increased by 7.8% over last year. Branded food sales grew 8.9% over last year (primarily a result of the revitalization of 100% fruit snack bars) and branded beverage sales grew by 7.4% (primarily from new beverage product sales and 200ml offerings). Other product lines were slightly lower in sales than last year including 6-Litre bag-in-box and single-serve glass and cans.

Contract Manufacturing Sales

Contract manufacturing (the production of food and beverage products for other companies) remained essentially flat in 2004, with increases in food co-packing offsetting discontinued private label production. Sun-Rype's combined food and beverage non-branded sales, as a portion of total sales, has declined to 11.5% in 2004 from 12.3% last year.

Cost of Goods Sold and Resulting Gross Profit Margin

Sun-Rype's gross profit margin was 34.1% of net sales in 2004, compared to 33.4% in 2003. This increase was due to operating efficiencies from the new food production equipment and lower raw material costs (due mainly to purchases in US dollars with a higher valued Canadian dollar than the previous year). Indirect overhead, including production supervision, warehouse management and quality assurance costs increased 7.9% over 2003, slightly more than the growth in sales. Costs continued to rise due to increased scheduling of weekend shifts to meet production demand as well as increasing costs of supply chain management to support central and eastern Canadian customer needs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for 2004 were \$27.5 million, \$3.3 million or 13.8% higher than last year. As a percentage of sales, these expenses increased to 23.9% in 2004 from 22.4% in 2003. Marketing expenses increased by \$1.8 million due to increased consumer marketing activity and support for product revitalizations. Freight costs for sales to customers increased by \$0.5 million as a result of fuel surcharges and increased shipments to eastern Canada. Administrative expenses increased by \$1.1 million. The single largest portion of this increase was due to the cost of management changes of \$0.5 million and, to a lesser extent, costs to document internal control systems for mandatory Canadian public company requirements, to administer the new collective agreement and labour standards, as well as to complete the search for a new CEO. Sales expenses in 2004 remained the same as last year but declined as a percentage of sales.

Amortization and Interest Expense

Amortization of \$3.4 million was slightly higher than the \$3.2 million incurred in 2003 due to new capital equipment additions in 2004.

Interest expense, which remained at a level similar to last year, was due to interest incurred on the promissory note and any balances outstanding on the Company's short-term bank borrowings.

Gains or Losses on Capital Dispositions

In 2004, excess land was sold for a net gain, before tax, of \$0.7 million. In 2003, certain unused equipment items were disposed of at a net loss of approximately \$0.2 million. Management reviews all of its plant and office equipment on a regular basis, and makes provisions to account for obsolete/unused equipment or impairment of equipment values.

Income Taxes

Income taxes averaged 34.6% of earnings in 2004 (2003 - 38.3%). The difference in rates is primarily due to capital gains tax treatment and recognition of prior years' Scientific Research and Experimental Development investment tax credits in 2004. The Company's average annual tax rate before adjustments for 2004 was 35.5%.

Net Earnings and Earnings Per Share

Net earnings were \$5.9 million in 2004 (2003 - \$5.1 million), which resulted in basic and diluted earnings per share of \$0.54 (2003 - \$0.48). There are no outstanding stock options and the board of directors has no plans to issue any new stock options.

Changes in Operational Activities

In January 2005, the Company renewed its pricing agreement with local Okanagan valley packinghouses to supply process grade apples following negotiations that commenced in 2004. While apple prices and available supply volumes may vary significantly from year to year, the agreement provides for new "floor" and "ceiling" prices for process grade apples purchased from the packinghouses.

Accounts Receivable and Payable

Sun-Rype's accounts receivable grew by 18.9% over last year. Most of this increase was due to sales growth in December of 2004 compared to last year, and orders of stock in anticipation of January 2005 sales promotions on several customer accounts. Accounts receivable and payable levels can typically increase or decrease by as much as fifteen percent in a given period, based on the timing of sales orders, purchases and payments. Accounts payable in 2004 remained at similar levels to last year, proportionate to increased sales, production and marketing activity.

Inventories

Inventories increased by 9.6% overall in 2004, due primarily to higher finished goods levels supporting the launch of new products and increased warehousing in eastern Canada. Raw material inventories increased at a nominal rate, less than the rate of sales growth in the year. Management expects that gradual increases in working capital may be required to support sales growth and the launch of new or revitalized products each year.

During 2004, the Company incurred write-downs of certain raw materials, packaging and finished goods as a result of the revitalization of several product lines. Inventories are reviewed for obsolescence or value impairment regularly and write-downs occur as needed in the normal course of business. Product launches and new packaging revitalizations are managed by the sales force with the intent of phasing out old raw material inventories, including packaging, before launch of new product items.

Income Tax Obligations

Income taxes payable decreased to \$0.1 million from \$0.6 million last year due to installment requirements closely approximating actual tax obligations. In 2003, installments were lower than actual tax obligations. Future income tax liabilities increased to \$1.8 million in 2004 from \$1.5 million in 2003 primarily as a result of the difference between depreciation on fixed assets expensed in the books of the Company and capital cost allowance claimed for income tax purposes.

COMMITMENTS, RISKS AND UNCERTAINTIES

Sun-Rype competes with a number of large food and beverage producers, many of which may have greater financial resources than Sun-Rype. To the extent these competitors are able to produce competitive products and utilize larger financial, distribution and marketing resources, Sun-Rype may be required to make significant expenditures to improve or even maintain its competitive position.

The Company's long-term future depends upon its ability to continue to develop new products that can reach an adequate level of distribution or "critical mass" in existing or new markets. Ensuring the success of newly developed products requires sufficient capital investment in product development, customer listing fees, market research and consumer support programs. Sun-Rype's product development process is designed to reduce risk by employing third-party research and economic analysis at key junctures in the development process.

Process grade apples and juice concentrates (primarily apple and orange) are commodities that experience volume and price volatility. These ingredients are sourced primarily from BC and Washington state. In years of short supply Sun-Rype is able to use alternate sources of apples, juices and concentrates. Management continually evaluates the long-term availability of apples and concentrates in conjunction with its forecast production needs.

In terms of pricing, process grade apple prices are commodity based and related to world apple juice concentrate prices. Higher raw material and concentrate prices can be partially recovered through higher product selling prices, within the limits of market and consumer acceptance and competition from other juice products.

Sun-Rype purchases certain fruit juices, purées, concentrates and packaging materials at prices denominated in US dollars. From time to time, equipment and parts are purchased in other foreign currencies such as the Euro or the Swiss franc. Most contract manufacturing sales to US customers are denominated in Canadian dollars.

In 2004, US dollar purchases during the normal course of business were approximately \$16.4 million US (2003 - \$14.9 million US). During 2005, additional planned US dollar purchases for certain raw material supplies, formerly denominated in Canadian dollars, will increase the total expected US dollar purchase level to approximately \$30 million.

Sun-Rype maintains an active environmental program that reflects conscientious policies and a respect for the environment. Audits are conducted annually (every third year by an external consultant) to ensure that appropriate management policies and practices towards waste management, recycling and reuse of products are maintained. Management is of the opinion that expenditures relating to current environmental requirements will not have a material adverse effect on the financial position or earnings of the Company.

SUMMARY OF QUARTERLY RESULTS**Quarterly Statement of Earnings Analysis****Quarterly Information** (in millions of dollars except per share amounts)

	2004				2003			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net sales ¹	\$ 29.1	\$ 28.2	\$ 28.4	\$ 29.5	\$ 28.3	\$ 26.7	\$ 27.5	\$ 25.3
Net earnings	1.1	1.2	1.5	2.1	1.8	1.0	1.2	1.1
Earnings per share ²								
Basic	0.10	0.11	0.14	0.20	0.17	0.10	0.11	0.10
Diluted	0.10	0.11	0.14	0.20	0.17	0.10	0.11	0.10

¹ Net sales on a quarterly basis include the impact of the reclassification of certain payments to customers as sales deductions. These were previously recorded as a selling expense for all quarters except Q4 of 2004.

² Rounded to nearest whole cent.

FOURTH QUARTER

Sales in the fourth quarter of 2004 were \$29.1 million. This compares to \$28.3 million for the fourth quarter of 2003. Sales were higher in revitalized food product lines and in newly launched beverage product lines. Gross profit percentage for the fourth quarter of 2004 was 34.5% of sales compared to 35.5% of sales last year, due mainly to increased production overhead and supply chain management costs.

Net earnings for the fourth quarter of 2004 were \$1.1 million (2003 - \$1.8 million). Selling, general and administrative expenses were 25.6% of sales in 2004 compared to 21.4% of sales in 2003. Marketing expenditures increased by \$0.7 million to support product revitalization and product launches; administrative expenses were higher by \$0.7 million as a result of management changes, internal control documentation and computer systems development.

LIQUIDITY, WORKING CAPITAL & INVESTMENT

Sun-Rype has no material long-term debt due over the next five years. The Company has, however, entered into contractual commitments and has operating lease obligations as follows:

Payments Due by Period ended December 31 (in thousands of dollars)

Contractual Obligations	Total	2005	2006-2007	2008-2009	2010+
Operating Leases ¹	\$ 1,554	\$ 509	\$ 695	\$ 350	\$ -
Purchase Obligations ²	4,095	4,095	-	-	-
Other Obligations ³	356	-	-	-	356
Total Obligations	\$ 6,005	\$ 4,604	\$ 695	\$ 350	\$ 356

¹ Annual cost to maintain operating leases for sales offices in Vancouver, Calgary and Toronto.

² Purchase of raw material ingredients in the ordinary course of business.

³ Post-employment benefits, based on employees' estimated retirement plans.

The Company is committed to purchasing a minimum number of units of packaging material annually until 2009, or it would be liable for an annual penalty of \$775,000 (management estimates this would occur only in the event of a dramatic decline in market demand).

Cash from operating activities (before changes in non-cash working capital) has declined from \$9.4 million in 2003 to \$9.0 million in 2004. The reduction in 2004 is due mainly to increased selling, general and administrative expenditures as discussed above. Management's focus continues to center on profitable product lines and projects that meet or exceed targeted returns on capital.

Over the past four years, cash flows have been utilized to invest in food and beverage processing and packaging equipment. Sun-Rype's minimal interest-bearing debt position and operating history generating positive cash flows provide a strong liquidity position, giving the Company the ability to take advantage of unutilized debt facilities should further expansion or acquisition opportunities arise.

Changes in certain non-cash working capital items may significantly increase or decrease cash flows from operating activities from period to period. Timing of promotions, customer orders and product price increases may result in significant increases or decreases of finished goods inventories in the short term. An increase or decrease in process grade apple crop volumes could also correspondingly impact production and finished goods levels. Accounts payable may also vary from year to year based on timing of large purchases, payments and capital expenditure programs. Income taxes payable or receivable can fluctuate from year to year due to statutory installments that exceed or are less than final taxes assessed.

In 2004, Sun-Rype's working capital (current assets less current liabilities) was \$21.0 million (2003 - \$16.7 million). Cash provided from operations (before changes in non-cash working capital items) was \$9.0 million, compared to \$9.4 million last year. After funding the growth in accounts receivable of \$1.9 million and inventories of \$1.3 million, cash from operating activities declined to \$5.8 million (2003 - \$9.2 million). Financing activities in 2004 included the one-time payment of CEO retirement obligations (\$0.6 million), quarterly dividends (\$1.0 million) that commenced in the second quarter of 2004, normal course issuer bid purchases of \$0.3 million (2003 - \$0.3 million) for Sun-Rype shares, and proceeds received on the conversion of stock options to shares of \$0.2 million (2003 - \$0.4 million). Investments of \$4.5 million (2003 - \$2.6 million) in capital expenditures were mainly for beverage packaging equipment of \$2.0 million and sustaining capital for the remainder. There were proceeds of \$1.0 million on the disposal of fixed assets in 2004, most of which was for the sale of vacant land.

In 2005, the Company expects to spend approximately \$2.8 million on sustaining capital expenditures, including \$0.5 million for wastewater disposal upgrades and \$2.2 million for productivity improvements. Additional capital investment projects that may support plant expansion, production efficiencies, new products or other opportunities, and which are able to generate an adequate return on capital, are considered by management and the board of directors on a case-by-case basis. Most of the manufacturing and packaging equipment is currently operating five, and sometimes six, days per week. There is, therefore, some opportunity to increase productivity and utilization of existing equipment before further capital expenditures are required to increase capacity.

Management expects that cash flow from operations will be adequate to fund anticipated 2005 capital expenditures of approximately \$5.0 million and anticipated working capital needs. Until such time as the Company approves a major capital investment or acquisition that exceeds the current cash surplus position, other financing requirements will be minimal.

DIVIDEND DECLARED

On February 15, 2005, the Company declared a quarterly dividend of \$0.03 per common share, for a total of approximately \$325,000, payable on March 15, 2005, to shareholders of record at the close of business on February 28, 2005.

CAPITAL RESOURCES

The Company has a \$15.0 million operating line of credit with a Canadian bank, which bears interest at the bank's prime lending rate (December 31, 2004 - 4.25%). This facility is secured by a general assignment of book debts, an assignment of inventories and demand debentures creating a fixed and floating charge over all Company assets.

OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet obligations that are not disclosed in the financial statements.

CRITICAL ACCOUNTING ESTIMATES

Management relies on certain estimates in preparing financial statements, including provisions for uncollectible accounts receivable, the amortization rate of capital assets, provisions for sales returns and allowances and provisions for obsolete inventory. Other than the estimated amortization rate of capital assets, management does not believe that any of these estimates are critical to the Company's financial position or results of operations; however, actual results could differ from these estimates.

ESTIMATES OF USEFUL LIFE AND IMPAIRMENT OF LONG-LIVED ASSETS

The Company estimates the useful life of property, plant and equipment and amortizes the cost of the asset over that estimated useful life (see note 1(f) of the notes to the financial statements). The Company periodically assesses the recoverability of values assigned to long-lived assets after considering potential impairment indicated by such factors as business and market trends, future prospects, current market value and other economic factors. The Company records an impairment loss in the period when it is determined that the carrying amount of the individual long-lived asset exceeds the undiscounted estimate of future cash flows expected to be generated from future use and eventual disposition of that asset. The impairment loss is measured as the difference between the carrying amount and estimated fair value of the asset.

CHANGES IN ACCOUNTING POLICIES

The notes to these financial statements contain a description of changes in accounting policies incorporated during 2004. New requirements by the Canadian Institute of Chartered Accountants ("CICA") require adoption of the following new accounting policies:

a) Impairment of long-lived assets

Effective January 1, 2004, the Company prospectively adopted the provisions of the CICA Handbook section 3063, "Impairment of Long-Lived Assets". This change had no material impact on the financial position or results of operations of the Company.

The Company periodically compares the carrying value of long-lived assets to the estimated undiscounted future cash flows that may be generated from future use and eventual disposition of those assets. The Company records an impairment loss in the period when it is determined that the carrying amount of the asset exceeds the undiscounted estimate of future cash flows from the asset. The impairment loss is measured as the difference between the carrying amount and estimated fair value of the asset.

b) Asset retirement obligations

This change requires companies to recognize liabilities related to legal obligations associated with the retirement and disposal of property, plant and equipment, effective for fiscal periods beginning on or after January 1, 2004. These obligations are recorded at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is capitalized as part of the cost of the related asset, then amortized to earnings over time. Management believes there are no asset retirement obligations outstanding that could have a material impact on these financial statements.

RECLASSIFICATION

Effective October 1, 2004, the Company revised its method of classifying certain co-operative advertising costs paid to customers such that sales are recorded net of these costs. Previously co-operative advertising costs paid to customers that could have been purchased from unrelated third parties were classified as selling, general and administrative expenses.

The Company believes that given the increasingly integrated nature of its sales and co-operative marketing arrangements with customers it is more appropriate to record shared advertising expenses paid to customers as a reduction of sales revenue. This classification of all types of customer payments as a reduction to sales will improve comparability of sales levels year over year.

The change results in a decrease in sales for 2004 and 2003 of \$2.0 million and \$3.3 million respectively, and a decrease in selling, general and administrative expenses for 2004 and 2003 of a corresponding amount. There is no balance sheet or net earnings impact from this reclassification.

FINANCIAL INSTRUMENTS AND OTHER RISKS

The Company's financial instruments include accounts receivable, a promissory note payable, accounts payable and long-term obligations for which the carrying values approximate fair values. Other instruments are instruments that may be settled by the delivery of non-financial assets, such as a commodity futures contract.

Credit risk is the risk of loss from non-performance of suppliers, customers or financial counter parties to a contract. The Company maintains credit policies that include a review of a counter party's financial condition, measurement of credit exposure and monitoring of concentration of exposure to any one customer or counter party. The Company's customers consist mainly of grocery stores, mass merchandisers and club stores across Canada. The Company's seven largest customers comprise approximately 75% of sales activity (2003 - 76%). At December 31, 2004, 77% (2003 - 82%) of accounts receivable were attributable to these customers.

The Company is exposed to foreign currency risk as certain of its raw material inputs are purchased in US dollars. These purchases in 2005 are estimated to be approximately \$30 million US (2004 - \$16 million US). A one-cent increase or decrease in the cost to purchase a US dollar would correspondingly increase or decrease the Company's raw material costs by approximately \$300,000.

The Company periodically enters into foreign exchange forward contracts to manage foreign exchange risk associated with anticipated future purchases and contractual commitments denominated in foreign currencies. Gains and losses resulting from changes in the market value of these contracts are deferred and recognized in earnings when the related transaction occurs. As at December 31, 2004 and 2003, the Company had no financial or other instruments outstanding that related to hedging or forward purchase foreign exchange contracts.

SUBSEQUENT EVENT

On January 14, 2005, the Consumers' Association of Canada filed a class action lawsuit against a number of parties in the beverage industry, including Sun-Rype, other manufacturers, retailers and Encorp Pacific (Canada), the administrator of the beverage container deposit and recycling fee system in British Columbia. The claim alleges the illegal use of consumer deposits collected under BC's beverage container stewardship program regulations. Due to the early stages of this litigation, the amount and likelihood of loss, if any, is not determinable.

RELATED PARTIES

In the normal course of business, the Company sells beverage and food products to a major food retailer in western Canada that is controlled by a major shareholder that holds approximately 25% of the outstanding common shares of Sun-Rype Products Ltd. Sales to this retailer are less than 10% of the Company's total sales.

OUTSTANDING SHARES

As at March 8, 2005, the Company had 10,827,600 common shares issued and outstanding. The shares traded on the Toronto Stock Exchange under the symbol SRF, at prices ranging from a high of \$13.00 to a low of \$7.90 and a closing price of \$10.95 in 2004.

ADDITIONAL INFORMATION

Additional information relating to Sun-Rype's operations can be found in the Company's Annual Information Form, filed with the Ontario Securities Commission and available for viewing at www.sedar.com and on the Company's website at www.sunrype.com.

AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SUN-RYPE PRODUCTS LTD.

We have audited the balance sheets of Sun-Rype Products Ltd. as at December 31, 2004 and 2003 and the statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
February 15, 2005

Sun-Rype Products Ltd.

BALANCE SHEETS

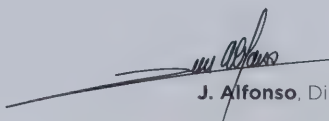
As at December 31 (in thousands of dollars)

	2004	2003
Assets		
Current assets		
Cash and cash equivalents	\$ 9,140	\$ 8,595
Accounts receivable (note 3)	12,194	10,259
Inventories (note 4)	14,546	13,271
Prepaid expenses	469	416
Future income taxes (note 12)	281	288
	36,630	32,829
Property, plant and equipment (note 5)	23,999	23,120
Deferred expenses	41	53
	\$ 60,670	\$ 56,002
Liabilities and Shareholders' Equity		
Current liabilities		
Promissory note (note 7)	\$ 675	\$ 675
Accounts payable and accrued liabilities	14,826	14,257
Income taxes payable	99	647
Current portion of long-term obligations (note 8)	-	504
	15,600	16,083
Long-term obligations (note 8)	184	153
Future income taxes (note 12)	1,828	1,486
	17,612	17,722
Shareholders' equity		
Share capital and contributed surplus (note 9)	18,698	18,797
Retained earnings	24,360	19,483
	43,058	38,280
	\$ 60,670	\$ 56,002

Commitments and guarantees (note 14)

APPROVED BY THE BOARD OF DIRECTORS


D. Selman, Director


J. Alfonso, Director

Sun-Rype Products Ltd.

STATEMENTS OF EARNINGS & RETAINED EARNINGS

For the years ended December 31 (in thousands of dollars except per share amounts)

	2004	2003
Net sales	\$ 115,214	\$ 107,954
Cost of sales	75,973	71,925
Gross profit	39,241	36,029
Selling, general & administrative expenses	27,539	24,207
Amortization	3,358	3,209
Interest expense (note 10)	86	99
(Gain) loss on capital dispositions	(691)	223
	30,292	27,738
Earnings before income taxes	8,949	8,291
Income taxes (note 12)	3,098	3,171
Net earnings	5,851	5,120
Add (deduct):		
Retained earnings, beginning of year	19,483	14,363
Dividends paid	(974)	-
Retained earnings, end of year	\$ 24,360	\$ 19,483
Earnings per share (note 15)		
Basic	\$ 0.54	\$ 0.48
Diluted	0.54	0.48

See accompanying notes to these financial statements.

Sun-Rype Products Ltd.

STATEMENTS OF CASH FLOWS

For the years ended December 31 (in thousands of dollars)

	2004	2003
Cash provided by (used in):		
Operating activities		
Net earnings	\$ 5,851	\$ 5,120
Non-cash items:		
Amortization of property, plant and equipment	3,346	3,197
Amortization of deferred expenses	12	12
(Gain) loss on capital dispositions	(691)	223
Future income taxes (note 12)	349	583
Employee future benefits and other	124	267
	8,991	9,402
Changes in non-cash working capital items (note 13)	(3,241)	(182)
	5,750	9,220
Financing activities		
Capital lease payment	(12)	(29)
Long-term obligations repaid	(586)	-
Dividends	(974)	-
Shares purchased and cancelled	(281)	(252)
Proceeds from issue of shares	182	361
	(1,671)	80
Investing activities		
Proceeds on capital dispositions	974	7
Capital expenditures	(4,508)	(2,606)
	(3,534)	(2,599)
Increase in cash position	545	6,701
Cash and cash equivalents, beginning of year	8,595	1,894
Cash and cash equivalents, end of year	\$ 9,140	\$ 8,595
Supplemental information on cash flows		
Interest paid	\$ 37	\$ 77
Income taxes paid	3,244	1,816

See accompanying notes to these financial statements

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2004 and 2003

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Use of estimates

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses disclosed during reporting periods. Significant areas that involve estimates include provisions for uncollectible accounts receivable, the amortization rate of capital assets, provisions for sales returns and allowances, and provisions for obsolete inventory. The actual amounts could differ from those estimates.

(c) Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the time of the transactions. At the balance sheet date, monetary assets and liabilities denominated in a foreign currency are translated at the period end rate of exchange. Exchange gains and losses arising on translation or settlement of foreign currency-denominated monetary items are included in the determination of net income for the current period.

(d) Cash and cash equivalents

Cash and cash equivalents include cash and short-term deposits in money market instruments, which are cashable on demand.

(e) Inventories

Raw materials and supplies are recorded at the lower of cost, determined on a weighted average basis, and replacement cost.

Finished goods are recorded at the lower of cost and net realizable value. Finished goods include the cost of direct labour, direct materials and variable overheads related to production, applied at a standard rate, which approximates actual costs. Fixed overhead costs related to production are considered a period cost and, as such, are not included in valuing inventory but are expensed in the period they are incurred.

(f) Property, plant and equipment

Property, plant and equipment are recorded at cost, net of investment tax credits. The Company uses the straight-line method of providing amortization over the estimated lives of the property, plant and equipment as follows:

Buildings	15-40 years
Equipment	
Processing	5-25 years
Other	3-12 years

Effective January 1, 2004, the Company prospectively adopted the provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3063, "Impairment of Long-Lived Assets". This change had no material impact on the financial position or results of operations of the Company.

The Company periodically compares the carrying value of long-lived assets to the estimated undiscounted future cash flows that may be generated from future use and eventual disposition of those assets. The Company records an impairment loss in the period when it is determined that the carrying amount of the asset exceeds the undiscounted estimate of future cash flows from the asset. The impairment loss is measured as the difference between the carrying amount and estimated fair value of the asset.

(g) Marketing and product launch costs

The Company records marketing costs for new product launches as an expense when incurred.

(h) Asset retirement obligations

Effective January 1, 2004, the Company adopted the provisions of CICA Handbook section 3110, "Asset Retirement Obligations". This standard requires the Company to recognize legal obligations associated with the retirement of property, plant and equipment that result from its acquisition, construction or normal operations. These obligations are recorded at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is capitalized as part of the cost of the related asset, then amortized to earnings over time. This change had no material impact on the financial position or results of operations of the Company.

(i) Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, temporary differences arising from the tax basis of an asset and a liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to be in effect in the periods that the temporary differences are expected to reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period the change occurs.

(j) Revenue recognition

Sales are recognized upon the shipment of finished goods to customers, when collectibility of proceeds is reasonably assured. The Company deducts from gross sales all payments to customers related to pricing discounts, returns and allowances, certain sales and marketing discounts, promotion funds, co-operative advertising, coupons and product listing fees.

(k) Stock-based compensation plans

The Company has stock-based compensation plans, which are described more fully in note 9. Contributions by the Company to the employees' share purchase plan, which is available to all permanent full- and part-time employees, are recorded as a compensation expense. Shares are purchased on the employees' behalf by the Company's plan administrator.

The Company records stock-based compensation and other stock-based payments to employees and third parties as stock-based compensation expense in the statement of earnings. The compensation expense is measured using a fair-value based method. As no stock options or stock-based payments were issued to employees or others during the years ended December 31, 2004 and 2003, the application of this accounting policy had no material impact on the results of operations and financial position of the Company or the related financial statement disclosure.

(l) Foreign exchange forward contracts

The Company periodically enters into foreign exchange forward contracts to manage foreign exchange risk associated with anticipated future purchases and contractual commitments denominated in foreign currencies. Gains and losses resulting from changes in the market value of these contracts are deferred and recognized in earnings when the related transaction occurs.

2. ACCOUNTING CHANGE**Reclassification of Certain Selling Expenses**

Effective October 1, 2004, the Company revised its method of classifying certain co-operative advertising costs paid to customers such that sales are recorded net of these costs. Previously certain co-operative advertising costs paid to customers that could have been purchased from unrelated third parties were classified as selling, general and administrative expenses.

The Company believes that given the increasingly integrated nature of its sales and co-operative marketing arrangements with customers it is more appropriate to record shared advertising expenses paid to customers as a reduction of sales revenue.

This change results in a decrease in sales for 2004 and 2003 of \$2.0 million and \$3.3 million respectively, and a decrease in selling, general and administrative expenses for 2004 and 2003 of a corresponding amount. There is no balance sheet or net earnings impact from this reclassification.

3. ACCOUNTS RECEIVABLE (in thousands of dollars)

	2004	2003
Trade	\$ 11,479	\$ 9,671
Other	715	588
Total	\$ 12,194	\$ 10,259

4. INVENTORIES (in thousands of dollars)

	2004	2003
Raw materials and supplies	\$ 8,266	\$ 7,915
Finished goods	6,280	5,356
Total	\$ 14,546	\$ 13,271

5. PROPERTY, PLANT AND EQUIPMENT (tabular dollar amounts in thousands)

	2004			2003		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land and improvements	\$ 179	\$ -	\$ 179	\$ 461	\$ -	\$ 461
Buildings	16,085	10,796	5,289	15,719	10,084	5,635
Processing equipment	39,606	23,296	16,310	36,242	21,372	14,870
Other equipment	6,412	4,191	2,221	5,637	3,483	2,154
Total	\$ 62,282	\$ 38,283	\$ 23,999	\$ 58,059	\$ 34,939	\$ 23,120

In 2004, other equipment included capital assets financed by a capital lease with a net book value of \$44,000 (2003 - \$54,000).

6. BANK INDEBTEDNESS

The Company has a \$15.0 million operating line of credit with a Canadian bank, which bears interest at the bank's prime lending rate (December 31, 2004 - 4.25%). This facility is secured by a general assignment of book debts and an assignment of inventories and demand debentures creating a fixed and floating charge over all Company assets.

7. PROMISSORY NOTE

The promissory note, due on demand in the amount of \$675,000 (2003 - \$675,000), is secured by a letter of credit and bears interest at the bank prime rate plus 1/4%.

8. LONG-TERM OBLIGATIONS (in thousands of dollars)

	2004	2003
Capital lease obligations repayable in monthly payments of \$1,830 including interest calculated at an average financing rate of 6.75%, secured by specific equipment	\$ -	\$ 12
Post-employment benefits (note 11)	184	645
	184	657
Less current portion of:		
Capital lease obligations	-	(12)
Post-employment benefits (note 11)	-	(492)
Total	\$ 184	\$ 153

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS**Authorized**

100,000,000	Common shares without par value ("Common shares")
200	Preference shares of \$6,750 par value each ("Preference shares")

Common shares

The Common shares are fully participating and without par value.

Preference shares

There are no Preference shares issued and outstanding.

ISSUED AND FULLY PAID CAPITAL (tabular dollar amounts in thousands)

	2004		2003	
	Shares	\$	Shares	\$
Common shares				
Opening balance	10,796,900	\$ 17,619	10,661,200	\$ 17,318
Issued for cash	57,500	182	172,500	361
Repurchased and cancelled	(26,800)	(45)	(36,800)	(60)
Closing balance	10,827,600	17,756	10,796,900	17,619
Contributed Surplus				
Opening balance		1,178		1,370
Excess of cost over book value on repurchased and cancelled shares		(236)		(192)
Closing balance		942		1,178
Total		\$ 18,698		\$ 18,797

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)**Employee share purchase plan**

The Company has an employee share purchase plan ("ESPP") enabling all permanent full- and part-time employees to acquire Common shares through payroll deductions with financial assistance provided by the Company. The shares are purchased by the administrator of the ESPP on either the open market, from the Company or from such other sources as designated by the board of directors. The aggregate number of treasury shares that may be purchased by the administrator is limited to 400,000 shares, subject to specified exceptions. Eligible employees may contribute monthly an amount, which shall not exceed 7% of salary, and the Company has agreed to contribute 35% of the amount contributed by each eligible employee. All funds and equity shares held by the administrator pursuant to the ESPP are held for the account of the individual eligible employee.

Normal course issuer bid transactions

During 2004 and 2003, the Company maintained normal course issuer bids ("NCIB"s), allowing shares to be repurchased for cancellation. Under the current NCIB expiring March 23, 2005, the Company may purchase up to 539,845 of its Common shares. During 2004, the Company purchased 26,800 shares (2003 - 36,800 shares) for cancellation at an average price of \$10.48 per share (2003 - \$6.84 per share) for a total consideration of \$281,000 (2003 - \$252,000). The excess purchase cost over book value of approximately \$236,000 (2003 - \$192,000) for the repurchased and cancelled shares was applied to contributed surplus.

Stock option transactions*Stock option plan:*

The Company had a stock option plan that provided options to purchase Common shares of the Company for its employees, officers and directors. The options granted pursuant to this plan were exercisable at a price equal to or greater than the fair market value of the Common shares at the time the options were granted. At December 31, 2004, all share options were exercised and none were issued and outstanding.

Stock option activity:

	Issued and Outstanding	Weighted Average
	Options	Price
Outstanding at January 1, 2003	230,000	\$ 2.36
Exercised during 2003	(172,500)	2.09
Outstanding at December 31, 2003	57,500	3.16
Exercised during 2004	(57,500)	3.16
Outstanding at December 31, 2004	-	-

Shares reserved for future issuance

The Company has 400,000 Common shares reserved for issuance under the employee share purchase plan. Shares under the employee share purchase plan are currently purchased on the open market and the share plan administrator has not used any of the 400,000 shares reserved in Treasury.

10. INTEREST EXPENSE (in thousands of dollars)

	2004	2003
Short-term interest expense	\$ 86	\$ 97
Long-term interest expense	-	2
Total interest expense	\$ 86	\$ 99

11. POST-EMPLOYMENT BENEFITS (tabular dollar amounts in thousands)

The Company maintains a defined contribution (money purchase) pension plan for substantially all of its salaried employees. Pension costs charged to earnings for the defined contribution plan were \$287,000 in 2004 (2003 - \$261,000).

Under the terms of certain employment agreements with selected senior officers, the Company provides for compensation to be paid to the individuals at the date they cease their employment. These obligations, including any past service costs resulting from amendment to the compensation arrangements, are accrued on a straight-line basis over the expected average remaining service period of the employee. Details of the total post-employment benefit expense charged to earnings and the accrued benefit obligation are as follows:

	2004	2003
Compensation expense	\$ 113	\$ 268
Accrued benefit obligation at December 31, 2004	184	645

At December 31, 2004, the estimated amount payable, on settlement, was \$355,600 (2003 - \$971,000).

12. INCOME TAXES (tabular dollar amounts in thousands)

Differences between the statutory income tax rate applicable to the Company and the Company's effective income tax rate applied to net earnings consist of the following:

	2004		2003	
Income tax provision at the combined				
basic Canadian federal and provincial rate	\$ 3,179	35.5%	\$ 3,122	37.7%
Adjustment in income tax rate resulting from:				
Manufacturing and processing deduction	-		(166)	(2.0)
Non-deductible expenses	56	0.6	60	0.7
Other	(137)	(1.5)	155	1.9
Effective income tax provision	\$ 3,098	34.6%	\$ 3,171	38.3%

The income tax provision consists of the following:

Current tax expense	\$ 2,749	\$ 2,588
Future income tax expense	349	583
Total income tax provision	\$ 3,098	\$ 3,171

Significant components of future income tax assets and liabilities include:

	2004	2003
Accrued liabilities	\$ 368	\$ 367
Losses and other deductions	27	151
Future income tax assets	395	518
Property, plant and equipment	(1,923)	(1,697)
Other	(19)	(19)
Future income tax liabilities	(1,942)	(1,716)
Net future income tax liability	\$ (1,547)	\$ (1,198)

The net future income tax liability is reported as follows:

	2004	2003
Future income tax benefit (current)	\$ 281	\$ 288
Future income tax liabilities	(1,828)	(1,486)
Net future income tax liability	\$ (1,547)	\$ (1,198)

13. CHANGES IN NON-CASH WORKING CAPITAL ITEMS (in thousands of dollars)

	2004	2003
Accounts receivable	\$ (1,935)	\$ (76)
Inventories	(1,275)	(2,751)
Prepaid expenses	(53)	(43)
Accounts payable and accrued liabilities	569	653
Income taxes	(547)	2,035
Total	\$ (3,241)	\$ (182)

14. COMMITMENTS AND GUARANTEES

- (a) The Company has entered into operating lease and rental commitments for certain processing and office equipment and office space for the next five years as follows:

2005	\$ 509,395
2006	387,634
2007	307,262
2008	270,449
2009	79,974

- (b) Under the terms of a processing and filling systems agreement, the Company is committed to purchasing a minimum number of units of beverage packaging material annually until 2009, or it would be liable for an annual penalty of \$775,000. Management estimates that penalties would only be payable in the event of a dramatic decline in market demand.
- (c) In the normal course of business the Company enters into commitments to purchase certain minimum quantities of raw materials including fruit juice purées and concentrates, primarily in US dollars. At December 31, 2004, the Company had commitments to purchase approximately \$4.1 million Cdn of these materials within the next year.

15. EARNINGS PER SHARE

Basic earnings per share are computed using the weighted average number of Common shares outstanding during the period. The weighted average number of shares outstanding in 2004, on a non-diluted basis, was 10,817,203 (2003 - 10,669,361). Diluted earnings per share are calculated using the treasury stock method with the effect that the diluted average number of Common shares outstanding in 2004 was 10,834,835 shares (2003 - 10,754,915 shares).

16. FINANCIAL INSTRUMENTS AND CREDIT RISK

The Company's financial instruments include accounts receivable, a promissory note payable, accounts payable and long-term obligations for which the carrying values approximate fair values. Other instruments are instruments that may be settled by the delivery of non-financial assets, such as a commodity futures contract.

Credit risk is the risk of loss from non-performance of suppliers, customers or financial counter parties to a contract. The Company maintains credit policies that include a review of a counter party's financial condition, measurement of credit exposure and monitoring of concentration of exposure to any one customer or counter party. The Company's customers consist mainly of grocery stores, mass merchandisers and club stores across Canada. The Company's seven largest customers comprise approximately 75% of sales activity (2003 - 76%). At December 31, 2004, 77% (2003 - 82%) of accounts receivable were attributable to these customers.

The Company is exposed to foreign currency risk as certain of its raw material inputs are purchased in US dollars. These purchases in 2005 are estimated to be approximately \$30 million US (2004 - \$16 million US). A one-cent increase or decrease in the cost to purchase a US dollar would correspondingly increase or decrease the Company's raw material costs and earnings before income taxes by approximately \$300,000.

The Company periodically enters into foreign exchange forward contracts to manage foreign exchange risk associated with anticipated future purchases and contractual commitments denominated in foreign currencies. Gains and losses resulting from changes in the market value of these contracts are deferred and recognized in earnings when the related transaction occurs. As at December 31, 2004 and 2003, the Company had no financial or other instruments outstanding that related to hedging or forward purchase foreign exchange contracts.

17. SEGMENTED INFORMATION (in millions of dollars)

The Company operates in one industry segment in Canada, the consumer packaged goods industry. Financial statements have therefore not been segmented.

Details of net sales by significant product lines are as follow:

	2004	2003
Beverage	\$ 83.8	\$ 79.5
Food	31.4	28.5
Total	\$ 115.2	\$ 108.0

18. COMPARATIVE FIGURES

Certain items have been reclassified in the financial statements to conform to the classifications used in 2004.

19. RELATED PARTIES

In the normal course of business, the Company sells beverage and food products to a major food retailer in western Canada that is controlled by a major shareholder that holds approximately 25% of the outstanding Common shares of Sun-Rype Products Ltd. Sales to this retailer are less than 10% of the Company's total sales.

20. SUBSEQUENT EVENT

On February 15, 2005, the Company declared a quarterly dividend of \$0.03 per Common share, for a total of approximately \$325,000, payable March 15, 2005, to shareholders of record at close of business on February 28, 2005.

On January 14, 2005, the Consumers' Association of Canada filed a class action lawsuit against a number of parties in the beverage industry, including Sun-Rype, other manufacturers, retailers and Encorp Pacific (Canada), the administrator of the beverage container deposit and recycling fee system in British Columbia. The claim alleges the illegal use of consumer deposits collected under BC's beverage container stewardship program regulations. Due to the early stages of this litigation, the amount and likelihood of loss, if any, is not determinable.

A COMMITMENT TO SOUND CORPORATE GOVERNANCE

At Sun-Rype, we believe that sound corporate governance is an essential ingredient in the effective management of the Company as well as in our ability to create maximum value for all our stakeholders. Accordingly, we work hard to ensure that Sun-Rype's policies are in full compliance with current rules, guidelines and standards of the Canadian Securities Administrators and that our approach to corporate governance reflects best practices as well as anticipated requirements.

During the past year, Sun-Rype continued to comply with both the letter and the spirit of the Toronto Stock Exchange (TSX) Guidelines on Corporate Governance including the separation of the CEO and Chairman positions and the maintenance of a majority of independent directors on the board. We also continue to further our commitment to corporate governance through the review of existing processes and, where appropriate, the development of new ones. During the past year, Sun-Rype:

- Adopted a written corporate disclosure policy, which is regularly communicated to employees.
- Implemented a new corporate privacy policy based on new federal and provincial government legislation.
- Revised our insider trading policy to specify exact windows during the year in which specified employees and directors of the Company may buy or sell shares of Sun-Rype.
- Commenced development of a Code of Business Conduct and Ethics that will be published and communicated during 2005.
- Reviewed our internal control systems and procedures.
- Began implementation of internal control systems and procedures documentation consistent with the anticipated requirements of Ontario Securities Commission guidelines.

Each of these initiatives is a reflection of Sun-Rype's commitment to sound corporate governance. For a complete description of the Company's practices and policies, please refer to Sun-Rype's 2005 Management Information Circular.



BOARD OF DIRECTORS

(shown from left to right)

Jess Alfonso¹

Donald Selman^{1*, 3}

Eric Sorensen, President & Chief Executive Officer

Merv Geen, Chairman of the Board^{2, 3*}

James Eccott^{1, 2, 3}

Robert Dawson^{1, 2}

Tom Knowlton³

Tim McElvaine (missing from picture)²

OFFICERS & SENIOR MANAGEMENT

Eric Sorensen, President & Chief Executive Officer

Robert McGowan, Vice President,

Finance & Administration & Chief Financial Officer

Brad Buchanan, Vice President,

Customer & Corporate Business Development

Robert Dick, Vice President, Manufacturing

Cameron Johnston, Vice President, Marketing

Andrea Krause, Vice President, Human Resources

Cindy Wilker, Vice President, Supply Chain

Gail Prichard, Corporate Secretary

¹ Members of the Audit Committee

² Members of the Compensation & Corporate Governance Committee

³ Members of the Executive Committee

* Chairman of the selected committee

FIVE-YEAR HISTORICAL REVIEW

For the years ended December 31 (dollar amounts in thousands except per share amounts)

	2004	2003 ⁴	2002 ⁴	2001 ^{1,2,4}	2000 ^{1,2,4}
OPERATING RESULTS					
Net sales ^{1,4}	\$115,214	\$107,954	\$100,043	\$ 92,625	\$ 88,197
Gross profit ^{1,4}	39,241	36,029	32,514	31,595	29,658
Gross profit %	34.1%	33.4%	32.5%	34.1%	33.6%
Selling, general & administrative expense ("SG&A") ^{1,2,4}	\$ 27,539	\$ 24,207	\$ 22,518	\$ 22,548	\$ 19,916
Other ²	(691)	223	7	(308)	(830)
EBITA	12,393	11,599	9,989	9,355	10,572
Amortization	3,358	3,209	2,446	2,324	2,521
EBIT	9,035	8,390	7,543	7,031	8,051
Interest expense	86	99	89	106	433
EBT	8,949	8,291	7,454	6,925	7,618
Income taxes	3,098	3,171	2,581	2,550	2,690
Net earnings	5,851	5,120	4,873	4,375	4,928
FINANCIAL POSITION AND CASH FLOW					
Working capital	21,030	16,746	10,450	13,528	8,106
Invested capital	43,733	38,967	33,768	28,965	25,586
Total assets	60,670	56,002	48,764	42,384	34,397
Interest bearing debt	675	687	717	824	1,712
Shareholder's equity	43,058	38,280	33,051	28,141	23,874
Cash from operating activities before changes in non-cash working capital items	8,991	9,402	7,858	6,487	6,626
Cash from operating activities	5,750	9,220	11,918	4,030	3,650
Capital expenditures	4,508	2,606	10,959	2,913	3,806
FINANCIAL RATIOS					
Net earnings as % of net sales	5.1%	4.7%	4.9%	4.6%	5.4%
After-tax return on average equity	14.4%	14.4%	15.9%	16.8%	23.9%
After-tax return on average assets	10.0%	9.8%	10.7%	11.4%	14.1%
Pre-tax (EBIT) return on average invested capital	21.9%	23.1%	24.0%	25.8%	35.1%
Current ratio	2.3	2.0	1.7	2.0	1.7
Debt:equity ratio	0.0	0.0	0.0	0.0	0.1
PER SHARE INFORMATION					
Average shares outstanding ('000's)	10,817	10,669	10,658	10,583	10,004
Earnings/share	\$ 0.54	\$ 0.48	\$ 0.46	\$ 0.41	\$ 0.49
Cash flow/share	0.83	0.88	0.74	0.61	0.66
Book value/share	3.98	3.59	3.10	2.66	2.39
Share price - high	13.00	8.25	8.00	6.60	4.25
Share price - low	7.90	6.32	5.75	3.85	3.20
Share price - close	10.95	8.01	6.50	6.45	4.15

1 Net sales, gross profit and SG&A expenses for 2000-2001 were restated in 2002 to reclassify certain sales discounts, promotions and product listing fees paid to customers, formerly included in selling, general and administrative expenses, as a reduction of sales, in accordance with new Financial Accounting Standards Board (US) guidance.

2 2000-2001 was restated in 2002 to reflect a change in accounting policy to expense, when incurred, certain marketing and product launch costs. Previously these costs, consisting principally of package development costs and listing fees for new products and extensions to existing products, were deferred and amortized over the life of the product to a maximum of 36 months. The effect on earnings in each year is to reduce amortization expense and add actual total launch cost expenditures to SG&A expenses.

3 Other includes: gain on the sale of the US "Fruit to Go" trademark in 2000; sale of excess land and China equipment in 2001; sale of fixed assets in 2002; loss on capital dispositions in 2003; gain on sale of excess land in 2004.

4 Further to note 1 above, net sales, gross profit and SG&A expenses for 2000-2003 were changed in 2004 to reflect a reclassification of the balance of co-operative advertising costs, formerly recorded as an SG&A expense, as a deduction from net sales. Previously, the portion of co-operative advertising costs paid to customers that could have been purchased from unrelated third parties were classified as SG&A expenses.

SHAREHOLDER INFORMATION

Auditors

Deloitte & Touche LLP
2800 - 1055 Dunsmuir Street
PO Box 49279
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Vancouver, BC V7X 1P4

Legal Counsel

Pushor, Mitchell & Company
Kelowna, BC
Fraser Milner Casgrain LLP
Vancouver, BC

Banker

Bank of Montreal
Vancouver, BC

Registrar and Transfer Agent

Computershare Trust Company
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Vancouver, BC V6C 3B9
Registered Shareholder Inquiries:
Toll-free 1 800 564 6253
E-mail service@computershare.com

CORPORATE INFORMATION

Requests for a copy of this annual report, other corporate information or shareholder/investor relations inquiries should be directed to:

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1165 Ethel Street
Kelowna, BC V1Y 2W4

Tel 250 470 6405
Fax 250 470 6485
Toll-free Investor line 1 800 668 7211
E-mail investor@sunrype.com
www.sunrype.com

2005 Annual General and Special Meeting

May 4, 2005
2:00 pm (local time)
The Grand Okanagan Resort
1310 Water Street
Kelowna, BC

